

MARILYN F. LUNDY ACADEMY

**Financial Report
with Supplemental Information
June 30, 2008**

MARILYN F. LUNDY ACADEMY

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Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

645 GRISWOLD, SUITE 1812
DETROIT, MICHIGAN 48226
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Marilyn F. Lundy Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marilyn F. Lundy Academy as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Marilyn F. Lundy Academy's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Marilyn F. Lundy Academy as of June 30, 2008 and the respective changes in financial position, where applicable, thereof for the year ended, in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors of
Marilyn F. Lundy Academy

The management's discussion and analysis and budgetary comparison information on pages 5 through 9 and 28 are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marilyn F. Lundy Academy's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2008 on our consideration of Marilyn F. Lundy Academy's internal control structure and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wilkerson & Associate PC

November 11, 2008

Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

645 GRISWOLD, SUITE 1812
DETROIT, MICHIGAN 48226
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.
THOMAS E. WILKERSON, C.P.A.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Marilyn F. Lundy Academy

We have audited the financial statements of Marilyn F. Lundy Academy as of and for the year ended June 30, 2008, and have issued our report thereon dated November 11, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marilyn F. Lundy Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

To the Board of Directors of
Marilyn F. Lundy Academy

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marilyn F. Lundy Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Directors, management and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Wilkerson & Associate PC

November 11, 2008

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

This section of Marilyn F. Lundy Academy's (the Academy) annual financial report presents a discussion and analysis of the Academy's financial performance during the year ended June 30, 2008. It should be read in conjunction with the Academy's financial statements, which immediately follow this section. The Academy continues to follow the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB No. 34) in its financial statement presentation. This accounting standard requires the reporting of two types of financial statements: Academy-wide Financial Statements and Fund Financial Statements.

The financial report is only one measure of the Academy's viability. Unlike commercial entities, the Academy's goal is not to generate profits but to provide services to students. Therefore, consideration should also be given to other non-financial factors, such as the quality of education provided to the students along with the safety and overall health of the Academy.

Academy-wide Financial Statements

The Academy-wide Financial Statements provide information about the activities of the Academy as a whole, presenting both an aggregate view of the Academy's finances and a long-term view of those finances. Academy-wide statements are presented on a full accrual basis, which is the primary accounting method used in the private industry. The Statement of Net Assets report all of the Academy's assets regardless of whether they are available for current use or legally restricted, and all of its liabilities, both short-term and long-term. The Statement of Activities reports all of the Academy's revenues and expenses by activity type.

Fund Financial Statements

The Academy segregates resources and activities in separate Funds (or entities), each used for a specific purpose to facilitate accountability for those resources. The Fund Financial Statements provide a detailed short-term view of the operations of the Academy's various fiscal components, not a long-term view of the Academy as a whole. It provides information as to the amount of financial resources that can be spent in the near future to finance programs. It also provides information about the Academy's most significant Funds – the General Fund (the Academy's principal operating Fund) and its non-major Fund. The Academy's non-major Fund is Food Service.

Fund Financial Statements are presented on a modified accrual basis. Only those assets that are measurable and currently available are reported. For further information on the attributes of the modified accrual basis and the full accrual basis of accounting, refer to Note 1 – Summary of Significant Accounting Policies in the Notes to Financial Statements section of this report.

The Academy as a Whole

As discussed above, the Statement of Net Assets provides information on the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30, 2008:

Table 1 – Summary of the Academy's Net Assets

	<u>2007</u>	<u>2008</u>
Assets		
Current and other assets	\$ 668,379	\$ 709,476
Capital assets - net of accumulated depreciation	<u>32,352</u>	<u>24,536</u>
Total Assets	\$ 700,731	\$ 734,012
Liabilities		
Current liabilities	\$ 509,199	\$ 338,337
Long-term liabilities - due within one year	41,964	219,400
Long-term liabilities - due after one year	<u>-</u>	<u>-</u>
Total Liabilities	551,163	557,737
Net Assets		
Investment in capital assets, net of accumulated depreciation	32,352	24,536
Unrestricted	117,216	150,433
Reserved	<u>-</u>	<u>1,306</u>
Total Net Assets	<u>\$ 149,568</u>	<u>\$ 176,275</u>

Net assets at year-end were \$176 thousand. The Academy's investment in capital assets, net of accumulated depreciation was \$25 thousand. The \$150 thousand in unrestricted net assets represents the cumulative operating results for the year ended June 30, 2008 and all prior years.

The Academy's net assets increased \$27 thousand during the fiscal year ended June 30, 2008. (Please refer to Table 2 on the next page) The cost to operate the Academy's programs was \$2,683 thousand. Partially funding these programs were grant revenue totaling \$507 thousand. The remaining cost of the Academy's programs was funded by general revenues, primarily state general formula aid totaling \$2,102 thousand. Several factors contributed to the \$27 thousand increase in net assets including a significant write-down of a long-term liability as well as instituting administrative streamlining to contain operating costs.

Table 2 – Summary of the Statement of Activities

	<u>2007</u>	<u>2008</u>
Revenues		
Program revenue		
Charges for services	\$ -	\$ 572
Grants and categoricals	298,200	507,091
General revenue		
State Aid - formula grants	2,722,148	2,102,344
Other	<u>13,319</u>	<u>99,627</u>
 Total Revenues	 \$ 3,033,667	 \$ 2,709,634
 Function/Program Expenses		
Instruction	\$ 1,075,325	\$ 913,229
Supporting services	1,796,902	1,609,125
Other expenditures	-	65,395
Food services	71,583	72,611
Depreciation (unallocated)	<u>36,586</u>	<u>22,566</u>
 Total Expenses	 \$ 2,980,396	 \$ 2,682,926
 Increase in Net Assets	 <u>\$ 53,271</u>	 <u>\$ 26,708</u>

Capital Assets

At June 30, 2008, the Academy had an investment in capital assets, net of accumulated depreciation, of \$25 thousand (refer to Table 3 below). This includes leasehold improvements, equipment and furniture and a building sign.

There was one significant capital purchase during the current fiscal year for security cameras.

Table 3 – Capital Assets

	June 30,	
	<u>2007</u>	<u>2008</u>
Leasehold improvements	\$ 21,893	\$ 21,893
Equipment and furniture	188,019	202,769
Sign	<u>3,600</u>	<u>3,600</u>
 Total Capital Assets	 213,512	 228,262
 Less accumulated depreciation	 <u>181,160</u>	 <u>203,726</u>
 Net Capital Assets	 <u>\$ 32,352</u>	 <u>\$ 24,536</u>

The Academy's Funds

As noted above, the Academy uses funds to segregate and account for resources and activities that are used for specific purposes. At June 30, 2008, the Academy's Governmental Fund had a combined balance of \$176 thousand, an increase of \$27 thousand from June 30, 2007. The contributions of each individual Fund are:

General Fund

The ending balance of the General Fund, the principal operating Fund of the Academy, increased \$34 thousand to \$151 thousand at June 30, 2008. The fund balance of the General Fund is available to fund costs related to school operations.

Other Governmental Funds

The Academy's non-major Fund, Food Service, is grouped and presented in this category. The Food Service Fund by design has a zero equity balance. The Academy transferred \$16 thousand from the General Fund to offset Food Service's net expenses.

General Fund Budget Highlights

State law requires that school districts periodically amend their budgets to ensure that expenditures do not exceed appropriations. During the year, the Academy revised its budget in response to and/or in anticipation of changing operating conditions. The Academy had two budget amendments – November, 2007 after the September pupil count and June, 2008 after reviewing the actual operating results for the first eleven (11) months. Each amendment was approved by the Academy's board. (A schedule showing the Academy's final budget and actual results for the General Fund is provided in the Required Supplemental Information section of these financial statements).

The majority of the Academy's revenue is based on student enrollment. For the fiscal year 2008, the Academy received \$7,580 per pupil from the State of Michigan. The original budget which was completed at the end of the prior fiscal year reflected certain assumptions for enrollment, grant funding, staffing and other expenditures. Each budget amendment reflected actual enrollment and a revised estimate of federally approved grant funding. Operating expenditures based on the revised revenue estimates were updated accordingly.

The actual ending fund balance met expectations. The fund balance at June 30, 2008 was \$151 thousand.

Year of Transition

The Academy focused the 2007-2008 school year on making sufficient progress in school improvement deliverables to receive an extension in its charter contract from Wayne RESA. The Academy's efforts were successful and resulted in Wayne RESA granting a two-year charter contract extension through June 2010.

As a result of declining enrollment in 2007-2008, the Academy significantly streamlined its overall administration and was successful as a result in reducing operating costs and achieving an operating surplus in the General Fund.

The Academy also made a strategic decision to focus on providing a small high school program in future years, in line with state and national education reform efforts to dramatically improve high school achievement and graduation rates. Starting in the 2008-2009 school year, grade six is being phased out and grades seven and eight will be phased out in successive years. Along with this strategic shift in focus, the Academy Board adopted a resolution in May 2008 to change the Academy's name to Detroit Midtown Academy effective with the 2008-2009 school year.

The Academy Board and Administration are confident that this new strategic direction will result in future enrollment and operational stability. The unofficial September 2008 count shows an increase of over 12 percent from the 2007-2008 school year despite the phasing out of the sixth grade.

Economic Factors Affecting Next Year's Budgets

The Academy's administration and board consider many factors in the budget process. One of the most important factors affecting the budget is student enrollment. Over eighty percent (80%) of the Academy's revenue is derived from the State of Michigan's student enrollment based funding formula. The formula to allocate revenue to school districts is based on the blending of two official pupil counts and a per-pupil funding allocation (called the "Foundation Allowance"). The blended count for the fiscal year 2008 is based on 25 percent of the February 2008 count plus 75 percent of the September 2008 count. The sum of these products represents the official count and student enrollment on which state funding is determined. The Allowance for 2008-2009 is estimated to be \$7,580 per student, a 1.4 percent increase from 2007-2008.

MARILYN F. LUNDY ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 153,018
Other receivables	
State	404,615
Federal	145,462
Other	1,724
Prepaid expenses	1,481
Capital assets, net of accumulated depreciation	<u>24,536</u>
 Total assets	 \$ 730,836
Liabilities	
Accounts payable	197,889
Loan payable	210,400
Note payable	9,000
Accrued expenses	<u>137,272</u>
 Total liabilities	 554,561
Net Assets	
Invested in capital assets, net of related debt	24,536
Restricted	1,306
Unrestricted	<u>150,433</u>
 Total net assets	 <u><u>\$ 176,275</u></u>

See accompanying notes to financial statements

**MARILYN F. LUNDY ACADEMY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets
Governmental Activities				
Instruction	\$ 913,229	\$ -	\$ 159,216	\$ (754,013)
Supporting services				
Pupil support services	227,075	-	211,038	(16,037)
Instructional staff services	92,201	-	46,543	(45,658)
General administration services	155,046	-	-	(155,046)
School administration services	169,732	-	-	(169,732)
Business services	84,942	-	24,569	(60,373)
Operations and maintenance	788,018	-	8,047	(779,971)
Pupil transportation	40,798	-	1,737	(39,061)
Central services	50,145	-	-	(50,145)
Community services	350	-	350	-
Food services	72,611	572	55,591	(16,448)
Depreciation (unallocated)	22,566	-	-	(22,566)
Other transactions	66,214	-	-	(66,214)
Total governmental activities	<u>\$ 2,682,927</u>	<u>\$ 572</u>	<u>\$ 507,091</u>	(2,175,264)
General revenues				
State aid - formula grants				2,102,344
Other revenue				<u>99,627</u>
Total general revenues				<u>2,201,971</u>
Change in Net Assets				26,707
Net Assets - July 1, 2007				<u>149,568</u>
Net Assets - June 30, 2008				<u>\$ 176,275</u>

See accompanying notes to financial statements

**MARILYN F. LUNDY ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

ASSETS

	General Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 153,018	\$ -	\$ 153,018
Accounts receivable	1,724	-	1,724
Due from other governmental units	547,076	3,001	550,077
Due from other funds	3,176	-	3,176
Prepaid expenditures	1,306	175	1,481
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 706,300</u>	<u>\$ 3,176</u>	<u>\$ 709,476</u>

LIABILITIES AND FUND BALANCES

Liabilities

Accounts payable	\$ 197,889	\$ -	\$ 197,889
Loan payable	210,400	-	210,400
Note payable	9,000	-	9,000
Accrued expenses	137,272	-	137,272
Due to other funds	-	3,176	3,176
	<hr/>	<hr/>	<hr/>
Total liabilities	554,561	3,176	557,737

Fund Balances

Reserved for prepaids	1,306	-	1,306
Unreserved	150,433	-	150,433
	<hr/>	<hr/>	<hr/>
Total fund balances	151,739	-	151,739
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 706,300</u>	<u>\$ 3,176</u>	<u>\$ 709,476</u>

See accompanying notes to financial statements

MARILYN F. LUNDY ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

Total Fund Balances - Governmental Funds	\$ 151,739
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, not reported as assets in governmental funds

Cost of capital assets	\$ 228,262	
Accumulated depreciation	<u>(203,726)</u>	<u>24,536</u>

Total Net Assets - Governmental Activities	<u><u>\$ 176,275</u></u>
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See accompanying notes to financial statements

MARILYN F. LUNDY ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local sources	\$ 50,180	\$ 572	\$ 50,752
State sources	2,264,999	3,693	2,268,692
Federal sources	<u>288,845</u>	<u>51,898</u>	<u>340,743</u>
Total revenues	2,604,024	56,163	2,660,187
Expenditures			
Current			
Instructional services	914,479	-	914,479
Supporting services:			
Pupil support services	227,075	-	227,075
Instructional staff services	92,201	-	92,201
General administration services	155,046	-	155,046
School administration services	169,732	-	169,732
Business services	84,942	-	84,942
Operations and maintenance	801,518	-	801,518
Pupil transportation	40,798	-	40,798
Central services	50,145	-	50,145
Community services	350	-	350
Food services	-	72,611	72,611
Other supporting services	<u>495</u>	<u>-</u>	<u>495</u>
Total expenditures	<u>2,536,781</u>	<u>72,611</u>	<u>2,609,392</u>
Excess (Deficiency) of Revenues Over Expenditures	67,243	(16,448)	50,795
Other Financing Sources (Uses)			
Prior period adjustment	(16,272)	-	(16,272)
Operating transfers - in	-	16,448	16,448
Operating transfers - out	<u>(16,448)</u>	<u>-</u>	<u>(16,448)</u>
Total other financing sources (uses)	<u>(32,720)</u>	<u>16,448</u>	<u>(16,272)</u>
Net Change in Fund Balances	34,523	-	34,523
Fund Balances - July 1, 2007	<u>117,216</u>	<u>-</u>	<u>117,216</u>
Fund Balances - June 30, 2008	<u><u>\$ 151,739</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 151,739</u></u>

See accompanying notes to financial statements

MARILYN F. LUNDY ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	34,523
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Amounts reported for governmental activities in the statement of activities are different because: -

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which depreciation exceeds capital outlays in the period:

Depreciation expense	(22,566)		
Capital outlays (site improvements, equipment and furniture expenditures)	14,750		(7,816)

Change in Net Assets of Governmental Activities	\$	26,707
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See accompanying notes to financial statements

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Marilyn F. Lundy Academy (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

A. Reporting Entity

Marilyn F. Lundy Academy (the “Academy”) is a public school academy that provides instructional and support services to middle and high school students. The Academy was formed as a public school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On July 1, 2008, the Academy entered into a two-year contract extension with Wayne County (RESA) to charter a public school academy, effective July 1, 2008 through June 30, 2010. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Academy is organized and administered by a Board of Directors in compliance with the School Code provisions. The Academy pays Wayne County (RESA) 3 percent of State Aid as administrative fees. The total administrative fee paid through Marilyn F. Lundy Academy to Wayne County (RESA) was approximately \$63,070.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational and financial relationships that determine which of the governmental organizations are a part of the Academy’s reporting entity, and which organizations are legally separate, component units of the Academy. Based on application of the criteria, the entity does not contain component units.

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

B. District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. Substantially all interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational and capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, although the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

District-Wide Statements

The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The effect of the interfund activity has been substantially eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted State aid.

Fund-Based Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as required under accrual accounting. However, expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fund-Based Statements (Continued)

Unrestricted State aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The State portion of the foundation allowance is provided from the State's School Aid Fund and is recognized as revenue in accordance with state law.

The Academy also receives revenue from the State to administer certain categorical educational programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received which are not expected to be expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

The Academy reports the following major governmental fund:

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Fund-Based Statements (Continued)

General Fund

The General Fund is used to record the general operation of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Additionally, the Academy reports the following nonmajor governmental Special Revenue Fund. This fund is used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes in the Academy's food service program. Any deficit generated by these activities is the responsibility of the General Fund.

D. Assets, Liabilities, and Net Assets or Equity

Deposits, Cash Equivalents, and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of twelve months or less when acquired.

The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Academy evaluates each financial institution it deposits Academy funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk are used as depositories.

**MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Deposits, Cash Equivalents, and Investments (Continued)

The Academy is authorized by Michigan Compiled Laws, Section 129.91 to invest surplus monies in federally insured United States banks, credit unions, and savings and loan associations that have offices in Michigan. The School District is also authorized to invest in bonds and notes, certain commercial paper, U.S. Government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have any infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	3 – 20 years

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

MPSERS Liability

The Academy contracted with DynamicHR to provide all staffing personnel during the year under audit. Consequently, all staffing cost is treated as purchased services in these financial statements.

The Academy has no obligation to fund the Michigan Public School Employees Retirement System for the year ended June 30, 2008.

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2008, there was no deferred revenue.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. In the fund financial statements, governmental fund types recognize bond proceeds, premiums and discounts, as well as issuance costs, during the current period.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriations or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Comparative Data

Comparative data is not included in the School District's financial statements.

Accounting Change

Effective July 1, 2003, the Academy implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Academy's overall financial position and results of operations have been included.

District-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Academy's activities have been provided.

Capital assets of \$228,262 (net of depreciation of \$203,726) are currently recorded in the governmental activities column of the statement of net assets.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Budgetary Data

The Academy is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (the Uniform Budgetary Act). The following is a summary of the requirements of the Act:

1. Budgets must be adopted for the General Fund, Special Revenue Funds, and Debt Service Funds.
2. The budgets must be balanced.
3. The budgets must be amended when necessary.
4. Public hearings must be held before budget adoptions.
5. Expenditures cannot exceed budget appropriations.
6. Expenditures must be authorized by a budget before being incurred.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The Academy formally adopted General Fund, and Special Revenue Funds (Food Services) budgets by function for the fiscal year ended June 30, 2008. Expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. No encumbrances were outstanding in the General Fund and Special Revenue Funds at June 30, 2008. During the current year, the budget was amended in a legally permissible manner.

The combined statement of revenues, expenditures and changes in fund balances – all governmental fund types is presented in conformity with generally accepted accounting principles. The combined statement of revenues, expenditures and changes in fund balances – budget and actual is presented on the same basis of accounting used in preparing the adopted budget.

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, banker's acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. The Academy has designated one bank for the deposit of its funds, and has not adopted any other formal investment policy.

The Academy's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits. The

Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

At year end, the Academy's deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$153,018.

The deposits of the Academy were reflected in the accounts of the financial institution at \$158,665, of which \$100,000 is covered by federal depository insurance.

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 4 - CAPITAL ASSETS

Capital assets activity of the Academy's governmental activities was as follows:

	Balance		Disposals		Balance
	July 1, 2007	Additions	and	Adjustments	June 30, 2008
Assets being depreciated:					
Leasehold improvements	\$ 21,893	\$ -			\$ 21,893
Equipment and furniture	188,019	14,750			202,769
Sign	3,600	-			3,600
Subtotal	213,512	14,750	-		228,262
Accumulated depreciation:					
Leasehold improvements	20,066	1,827			21,893
Equipment and furniture	159,115	20,378			179,493
Sign	1,980	360			2,340
Subtotal	181,160	22,566	-		203,726
Net capital assets being depreciated	<u>32,352</u>	<u>(7,816)</u>	<u>-</u>		<u>24,536</u>
Net capital assets	<u>\$ 32,352</u>	<u>\$ (7,816)</u>	<u>\$ -</u>		<u>\$ 24,536</u>

Depreciation expense was not charged to specific activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 - RISK MANAGEMENT

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions and employees injuries (workers compensation), as well as medical benefits provided to employees. The Academy has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

MARILYN F. LUNDY ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Operating Leases

At June 30, 2008, the Academy had a year-to-year operating lease for its facilities.

Total rental expense for the year ended June 30, 2008 was approximately \$412,126.

NOTE 7 - LOAN PAYABLE

At June 30, 2008, the Academy owed its landlord a total of \$210,400 for a series of cash advances dating to the 2006/07 fiscal year. The Academy intends to repay this debt upon agreement on a new facility lease that extends at least through the term of its current charter agreement with Wayne RESA.

NOTE 8 - NOTE PAYABLE

In August 2007, a settlement was reached with the Archdiocese of Detroit in the amount of \$9,000.

NOTE 9 - SUBSEQUENT EVENT

On October 1, 2008, the Academy entered into a \$350,000 State Aid Anticipation Note, maturity date of August 31, 2009, at an interest rate of 7%.

NOTE 10 - ADMINISTRATIVE SERVICES

Marilyn F. Lundy Academy has entered into a management agreement with DynamicHR. Under the terms of the management agreement, DynamicHR provides all the required labor necessary for the provision of educational services to the students of the Academy. All costs incurred in providing this educational program at the Academy are reimbursed by the Academy to DynamicHR.

Administrative fees and payroll invoices for the year ended June 30, 2008 were approximately \$1,183,371.

REQUIRED SUPPLEMENTAL INFORMATION

MARILYN F. LUNDY ACADEMY
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variances
	Original	Final	(GAAP Basis)	Over/(Under)
				Final
				to Actual
Revenues				
Local revenues	\$ 69,147	\$ 64,044	\$ 50,180	\$ (13,864)
State program revenues	2,271,530	2,272,594	2,264,999	(7,595)
Federal program revenues	394,960	394,960	288,845	(106,115)
Total revenues	2,735,637	2,731,598	2,604,024	(127,574)
Expenditures				
Current				
Instructional services	1,024,922	991,387	914,479	(76,908)
Supporting services				
Pupil support services	235,576	238,106	227,075	(11,031)
Instructional staff services	86,006	114,748	92,201	(22,547)
General administration services	172,837	158,492	155,046	(3,446)
School administration services	144,056	158,159	169,732	11,573
Business services	85,500	90,592	84,942	(5,650)
Operations and maintenance	812,301	820,485	801,518	(18,967)
Pupil transportation	33,500	41,760	40,798	(962)
Central services	103,552	91,497	50,145	(41,352)
Community services	-	-	350	350
Other supporting services	5,609	495	495	-
Total expenditures	2,703,859	2,705,721	2,536,781	(168,940)
Excess (Deficiency) of Revenues				
Over Expenditures	31,778	25,877	67,243	41,366
Other Financing Sources (Uses)				
Prior period adjustment	-	-	(16,272)	(16,272)
Operating transfers - in	-	-	-	-
Operating transfers - out	(26,225)	(45,841)	(16,448)	29,393
Total other financing sources (uses)	(26,225)	(45,841)	(32,720)	13,121
Net Change in Fund Balance	5,553	(19,964)	34,523	54,487
Fund Balance - July 1, 2007	117,216	117,216	117,216	-
Fund Balance - June 30, 2008	\$ 122,769	\$ 97,252	\$ 151,739	\$ 54,487

See accompanying notes to financial statements

OTHER SUPPLEMENTAL INFORMATION

**MARILYN F. LUNDY ACADEMY
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Food Services</u>
Revenues	
Local sources	\$ 572
State sources	3,693
Federal sources	<u>51,898</u>
Total revenues	56,163
Expenditures	
Food services	<u>72,611</u>
Total expenditures	72,611
Other Financing Sources	
Operating transfers	<u>16,448</u>
Excess of Revenues Over Expenditures and Other Financing Sources	-
Fund Balance - July 1, 2007	<u>-</u>
Fund Balance - June 30, 2008	<u><u>\$ -</u></u>

See accompanying notes to financial statements